

MPERS FYI

Popular Annual Financial Report For the Fiscal Year Ended June 30, 2018



**A letter
from the
MPERS
Director**

Scott Simon

This For Your Information (FYI) brochure has been prepared to provide you a reader-friendly summary of MPERS' information that members and other stakeholders may find valuable. For the complete audited financial statements and additional detailed information, refer to our *Comprehensive Annual Financial Report*, available on our website at www.mpers.org.

Membership in MPERS is comprised of eligible employees of the Missouri Department of Transportation (MoDOT), the Missouri State Highway Patrol (MSHP or Patrol), and MPERS. The System administers retirement, survivor, and disability benefits in accordance with Chapter 104 of the Missouri Revised Statutes. MPERS operates as a 401(a) tax qualified defined benefit plan. Benefits are based on a formula that is set by law.

MPERS investment portfolio had a return of 9.42 percent for the fiscal year. Relative to our peer group, the 9.42 percent return ranked MPERS in the 8th percentile, outpacing 92 percent of the other public funds within the peer group. The trailing three and five year performance of 7.12 and 9.04 percent ranks MPERS in the top 18 percent and three percent of the peer group.

The predominant effort for the year was connected to the vested former member buyout that was passed with Senate Bill 62 in 2017. This legislation allowed vested former members the ability to accept a distribution of their vested interests in the retirement plan with a lump sum buyout rather than a monthly annuity. Out of 2,200 eligible members, 383 elected to take the lump sum payment.

Risk management efforts continue to be a priority. A notable tool associated with those efforts include an anonymous fraud reporting tool available through MPERS' website. This tool allows suspected fraud to be reported by anyone in an effort to ensure resources are being applied responsibly.

Staff produced MPERS' first summary annual report, typically called the popular annual financial report, for the prior fiscal year. This publication, based on the previously issued *MPERS FYI* publication, was adjusted to satisfy the reporting requirements of the Governmental Finance Officers Association (GFOA). We are pleased to announce that the first edition of this report received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting.

We express our gratitude to the members of the board, the staff, the consultants, and the many people who have worked so diligently to assure the continued successful operation of MPERS. For over 60 years, MPERS has been committed to providing a foundation for financial security to plan participants through the delivery of quality benefits, exceptional member service and professional plan administration.

Mission Statement

To provide a basic level of financial security to plan participants by delivering quality benefits and exceptional customer service through professional plan administration and prudent management of System assets.

Vision Statement

To be the best retirement system we can be by making strategic investment decisions and implementing technological tools that streamline our processes and enhance customer service.

Core Values

- Our members are our number one focus...we work for them.
- Our goal is to provide exceptional service always, no matter who is on the phone or sitting across from us.
- We strive to preserve, protect, and grow our assets.
- We are committed to the security and privacy of our members' information.
- We make decisions in the best interest of our members, based upon statutory guidance.
- We conduct business at a reasonable cost to the tax payers of Missouri.



ABOUT MPERS



Benefits are part of the compensation package used to recruit and retain employees who will provide high quality services to Missouri citizens. MPERS' retirement benefit, when combined with Social Security and personal savings, provide the basic foundation for our members to leave the workforce and enjoy their retirement years with the dignity they deserve.



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Board of Trustees

The System operates under the direction and control of an 11-member Board of Trustees. As of June 30, 2018, the Board consisted of the following members:



Sue Cox
Board Chair
MoDOT Retiree Representative



Bill Seibert
Board Vice-Chair
MSHP Retiree Representative



John W. Briscoe
Highways & Transportation Commissioner



Sergeant Matt Broniec
MSHP Employee Representative



Colonel Sandra Karsten
Superintendent of the MSHP
Ex-Officio Member



Patrick McKenna
Director of MODOT
Ex-Officio Member



Michael B. Pace
Highways & Transportation Commissioner



Senator Dave Schatz
State Senator



Gregg C. Smith
Highways & Transportation Commissioner



Todd Tyler
MoDOT Employee Representative



VACANT
State Representative

The Board of Trustees has the ultimate fiduciary responsibility for the System and those covered by the System. Fiduciary duty is a legal relationship of trust between parties, where one party is acting for the benefit of another. Fiduciaries of pension funds have strict standards imposed upon them by law. The Board's primary fiduciary responsibilities are the duty of loyalty, the duty of prudence, and the duty to follow plan documents.

In addition to administrative rules, the Board adopted governance policies that set forth the expectations the Board has for itself and formalize the way the Board conducts business. The policies are intended to help the Board meet its fiduciary responsibilities. The governance policies set forth the structure, manner, and process by which the Board exercises its authority and control.

FINANCIAL INFORMATION



Overall, the financial position of MPERS strengthened by \$145 million, reported as the Net Increase. This is primarily a result of net appreciation in the fair value of investments for the year ended June 30, 2018.

Financial Statements report information using accounting methods similar to those used by private sector companies. The Net Position reported below is an indicator of the System's financial standing at the end of the fiscal year. For more financial information, refer to the *Comprehensive Annual Financial Report* at www.mpers.org.

Assets and Liabilities

The *Summarized Comparative Statements of Fiduciary Net Position* includes all the System's assets and liabilities, with the difference between the two reported as net position.

	FY 2018	FY 2017
Assets		
Cash and Receivables	\$ 22,452,794	\$ 18,697,840
Investments	2,306,942,650	2,162,264,152
Invested Securities Lending Collateral	133,616,408	56,823,478
Capital Assets	858,546	1,204,317
Total Assets	2,463,870,398	2,238,989,787
Deferred Outflows of Resources	34,090	--
Liabilities		
Accounts Payable	8,789,084	10,109,326
OPEB Obligation*	1,545,180	715,962
Securities Lending Collateral	138,840,857	58,389,459
Total Liabilities	149,175,121	69,214,747
Deferred Inflows of Resources	199,219	--
Net Position	\$2,314,530,148	\$2,169,775,040

	FY 2018	FY 2017
Additions		
Contributions	\$ 211,824,042	\$ 213,198,963
Investment Income	228,899,700	251,035,802
Less Investment Expenses	(31,280,333)	(30,734,675)
Other Income	472	614
Net Additions	409,443,881	433,500,704
Deductions		
Benefits	259,058,863	251,284,152
Administrative Expenses	4,693,492	4,515,458
Total Deductions	263,752,355	255,799,610
Net Increase	145,691,526	177,701,094
Net Position-Beginning	2,168,838,622	1,992,073,946
Net Position-Ending	\$2,314,530,148	\$2,169,775,040
OPEB Implementation Adjustment*		(936,418)
Net Position-Ending, as Restated		\$2,168,838,622

Income and Expenses

The *Summarized Comparative Statements of Changes in Fiduciary Net Position* accounts for all the current year's additions (income) and deductions (expenses), regardless of when cash is received or paid.

* Other Post Employment Benefits (OPEB) consist of health insurance benefits.



MEMBERSHIP AND BENEFITS

Retirement Plans

To participate in MPERS, an employee must be working in a “benefit-eligible” position for MoDOT, MSHP, or MPERS, which requires the performance of duties of at least 1,040 hours per year (half-time or greater). Based on date of hire, members participate in one of the following plans:



For complete plan descriptions, refer to the Plan Handbooks at www.mpers.org.

1. Closed Plan (non-contributory)

The Closed Plan was the original retirement plan for benefit-eligible employees hired prior to July 1, 2000. At retirement, these members may elect to stay in the Closed Plan or retire under the Year 2000 Plan.

2. Year 2000 Plan (non-contributory)

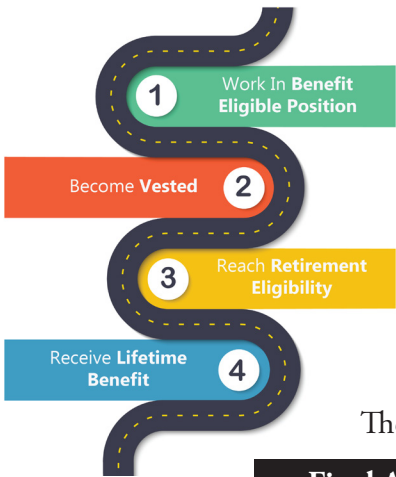
Benefit-eligible employees hired for the first time on or after July 1, 2000, but prior to January 1, 2011, are members of the Year 2000 Plan.

3. 2011 Tier (contributory)

A contributory tier was added to the Year 2000 Plan for benefit-eligible employees hired for the first time on or after January 1, 2011. Both the employee and the employer make monthly contributions to fund the retirement of 2011 Tier members.

	MoDOT and MPERS	Civilian Patrol	Uniformed Patrol	Total
Active Members				
Closed Plan	1,605	284	534	2,423
Year 2000 Plan	1,649	423	383	2,455
2011 Tier	1,792	407	314	2,513
Total Active Members	5,046	1,114	1,231	7,391
Retirees and Beneficiaries				
Closed Plan	3,426	488	942	4,856
Year 2000 Plan	3,343	566	6	3,915
2011 Tier	0	1	0	1
Total Regular Pensioners	6,769	1,055	948	8,772
Disability Recipients				
	120	16	8	144
Terminated-Vested Members	1,604	218	158	1,980
Grand Totals	13,539	2,403	2,345	18,287

Steps of a Defined Benefit Retirement Plan



Averages for a New MPERS' FY 2018 Retiree

Status Retired From	# of Retirees	Average Benefit	Average Service	Average FAP	Average Age
Normal retirement or disability status <i>(members retiring directly from active employment)</i>	236	\$2,325	23.0 yrs	\$4,319	56.3 yrs
Vested, but no longer working for state	75	\$732	13.6 yrs	\$3,020	58.4 yrs

Base Benefit Formula

The base benefit formula is comprised of the following three components:

Final Average Pay
The average of a member's highest 36 consecutive months of pay

X

Credited Service
The member's years and full months of service

X

Multiplier
A percentage set by law

=

Monthly Base Benefit
Paid for the lifetime of the member

FUNDING THE SYSTEM



Contribution Rates

When the plan was created in 1955, both employees and employers paid contributions equal to 4% of the employee's first \$7,500 in salary. In 1976, legislation was passed which made the System non-contributory and all contributions, plus interest, were refunded to members. From then until 2011, the cost of the plan was funded solely by employer contributions and investment income. In 2010, legislation was passed that created the contributory 2011 Tier. Employees hired for the first time in a benefit-eligible position on or after January 1, 2011, contribute 4% of their salary to help fund their retirement benefits.

The Board establishes the contribution rate, as a percentage of payroll, based on actuarial recommendations.

FY 2018 Employer Contribution Rates

	MoDOT & Civilian Patrol	Uniformed Patrol
Normal Cost of Benefit	10.19%	16.36%
Catch Up Payment on the Unfunded Liabilities*	46.08%	39.91%
Administrative Costs	1.20%	1.20%
Subtotal	57.47%	57.47%
Disability Insurance Premium	.53%	.53%
Total Employer Contribution Rate	58.00%	58.00%

* The "Catch Up Payment on the Unfunded Liabilities" is just that - extra contributions, over a set period of time, to improve our funded status. See page 6 for details on funding policies.



Decisions made by multiple entities over the years regarding benefit increases, plan assumptions, contributions and investment policy, coupled with market declines in the past decade, have resulted in an unfunded liability. MPERS is currently 57.1% funded; however, the following should be noted:

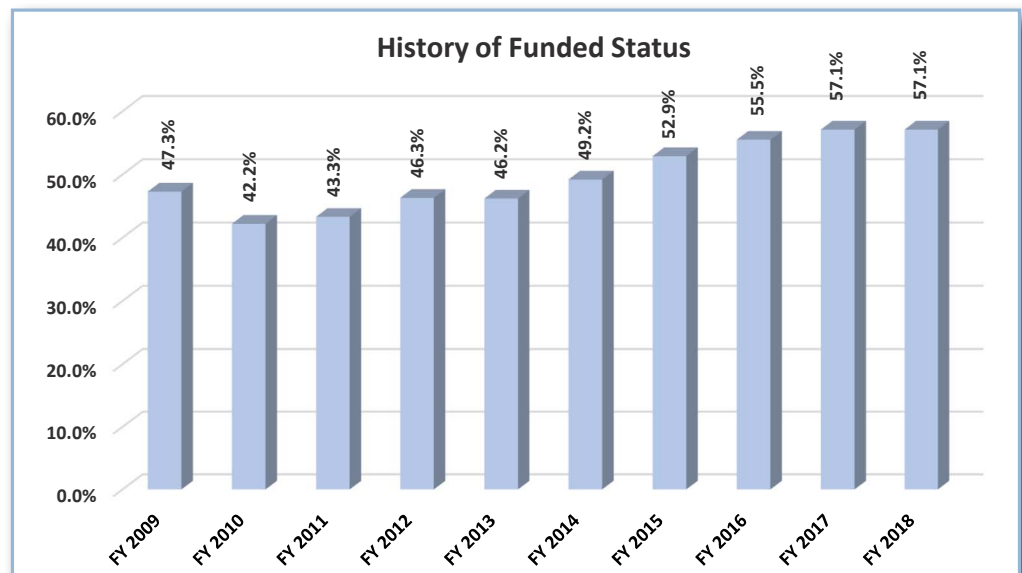
- MPERS has an aggressive plan in place to address underfunding and it is working, however, it takes time. MPERS did not become underfunded overnight and it cannot become fully funded overnight.
- MoDOT and the MSHP (our employers) have contributed 100% of their actuarially required contributions and have never missed a contribution payment.

Calculating Funded Status

Current Actuarial Value of MPERS' Assets \$2,274,248,122
 Total Actuarial Accrued Liability 3,981,838,941
 Unfunded Actuarial Accrued Liability \$1,707,590,819

$$\$2,274,248,122 \div \$3,981,838,941 = 57.1\%$$

Of the \$3,981,838,941 needed to pay all future benefits, MPERS currently has \$2,274,248,122 in assets, which means that MPERS is 57.1% funded.

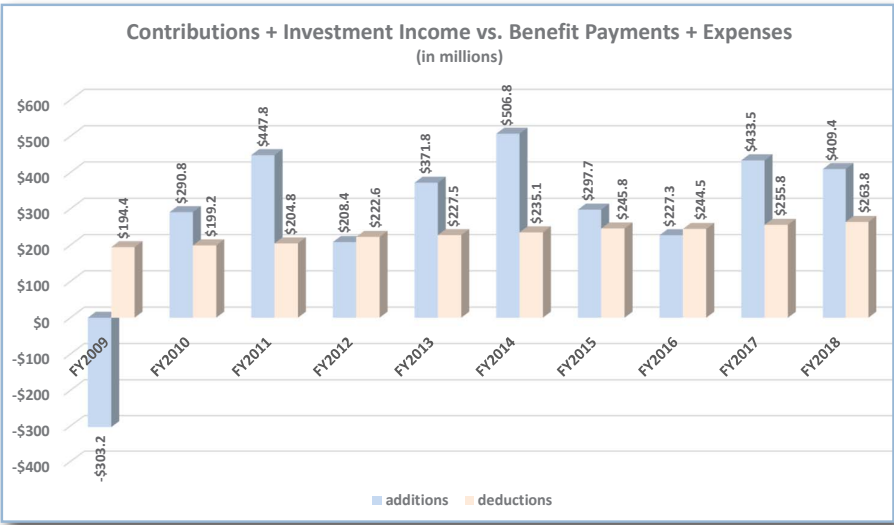




FUNDING THE SYSTEM

Understanding How a Pension Plan is Funded

The funding objective of MPERS is to meet current and future benefit obligations of retirees and beneficiaries through contributions and investment earnings. Each year, an actuary calculates the liability associated with the benefits, determines the funded status, and recommends the contribution rate needed to fund the system in accordance with the funding policies put in place by the Board. The contribution rate is based on a number of factors, including the current level of benefits, the number of participants, current and future pay levels, members' age and average life expectancy, expected earnings on investments and the plan's unfunded liability. The investment portfolio is constructed to generate income that, when added to employer contributions, is sufficient to meet benefit obligations and expenses.



Permanent and Temporary Funding Policies

In an effort to address the System's underfunded situation, the Board has adopted policies intended to improve MPERS' funded status over time. The Unfunded Actuarial Accrued Liabilities are amortized as follows:

Permanent Policy: In September 2006, the Board adopted a policy where the total contribution is based on normal cost plus a 29-year amortization of unfunded liabilities. The amortization period started July 1, 2007.

Temporary Accelerated Policy: In September 2009, after the market downturn, the Board adopted a policy where the total contribution is based on normal cost plus a 15-year amortization period for unfunded retiree liabilities and a 30-year amortization period for other unfunded liabilities. Both amortization periods started July 1, 2010.

Funding Policy	Remaining as of July 1, 2018
Permanent Policy: 29 years Started July 1, 2007	18 years
Temporary Policy: 15 years (retirees) Started July 1, 2010	7 years
Temporary Policy: 30 years (other) Started July 1, 2010	22 years

The temporary accelerated policy will remain in effect until the retiree liability becomes 100% funded or the permanent policy produces a higher contribution rate.



Reserve Fund - In September 2014, the Board adopted the use of a contribution rate stabilization reserve that is intended to keep the employer contribution relatively level over time and may be used if the market experiences a downturn. In February 2015, the Board further adopted that the employer contribution rate would not fall below 58% unless the fund became fully funded or the contribution stabilization reserve reached \$250 million.

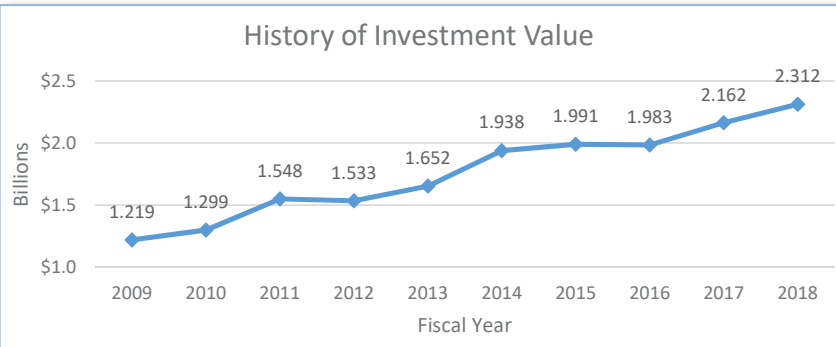
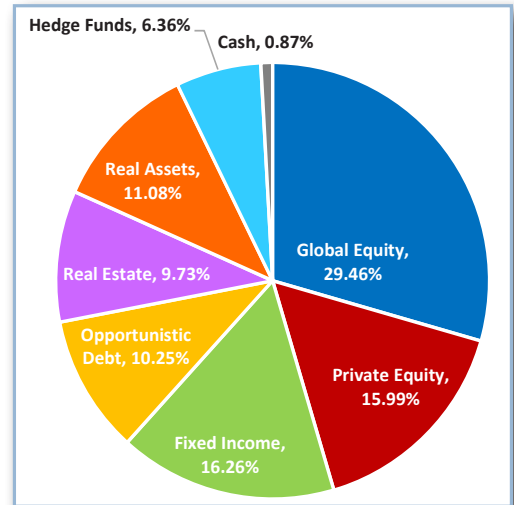
INVESTMENTS

MPERS Investment Policy

The primary objective of MPERS is to provide active and retired employees with adequate retirement benefits. The investment portfolio is constructed to generate a total return that, when added to contributions, is sufficient to meet benefit obligations. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the plan's tolerance for risk, as determined by the Board in its role as fiduciary.

Asset Allocation

MPERS' investment consultant completes an asset/liability study every five years to determine whether or not changes are needed to the asset allocation. The asset allocation is reviewed annually by the Board.



Pension plans invest assets with a long-term perspective because pension costs are spread over the working careers of plan participants. While market uncertainty brings additional risk to the investment portfolio, it's important to keep in mind that pension plans are in the business of managing risk, not simply avoiding risk. The asset allocation approved by the Board is designed to protect the fund against the uncertainty that is found in the global economy, and should perform well across various market environments.

Investment Performance

Fiscal year 2018 was a positive year for MPERS' investment portfolio. The fund generated a 9.42% return for the year, net of all management fees and based on time-weighted rates of return and market valuations. As of June 30, 2018, MPERS' investment portfolio had a total fair value of \$2.312 billion, representing an increase of \$149 million from June 30, 2017. Over the course of the year, an additional \$47 million was transferred out of the fund to meet benefit payments and other obligations. When viewed together, the net increase to the portfolio from investment activity equated to \$196 million.

	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Asset Value	\$2.3 billion	\$2.2 billion	\$2.0 billion	\$2.0 billion	\$1.9 billion
1-Year Return	9.42%	11.22%	1.01%	6.62%	17.59%
Policy Benchmark	7.69%	10.90%	1.85%	5.22%	14.48%
3-Year Return	7.12%	6.20%	8.19%	12.45%	11.07%
Policy Benchmark	7.75%	5.92%	7.05%	9.85%	9.11%
5-Year Return	9.04%	9.82%	8.10%	12.21%	13.50%
Policy Benchmark	7.94%	8.40%	6.83%	9.78%	11.66%
10-Year Return	6.40%	5.19%	5.77%	7.20%	7.63%
Policy Benchmark	6.20%	5.26%	5.86%	6.91%	7.41%

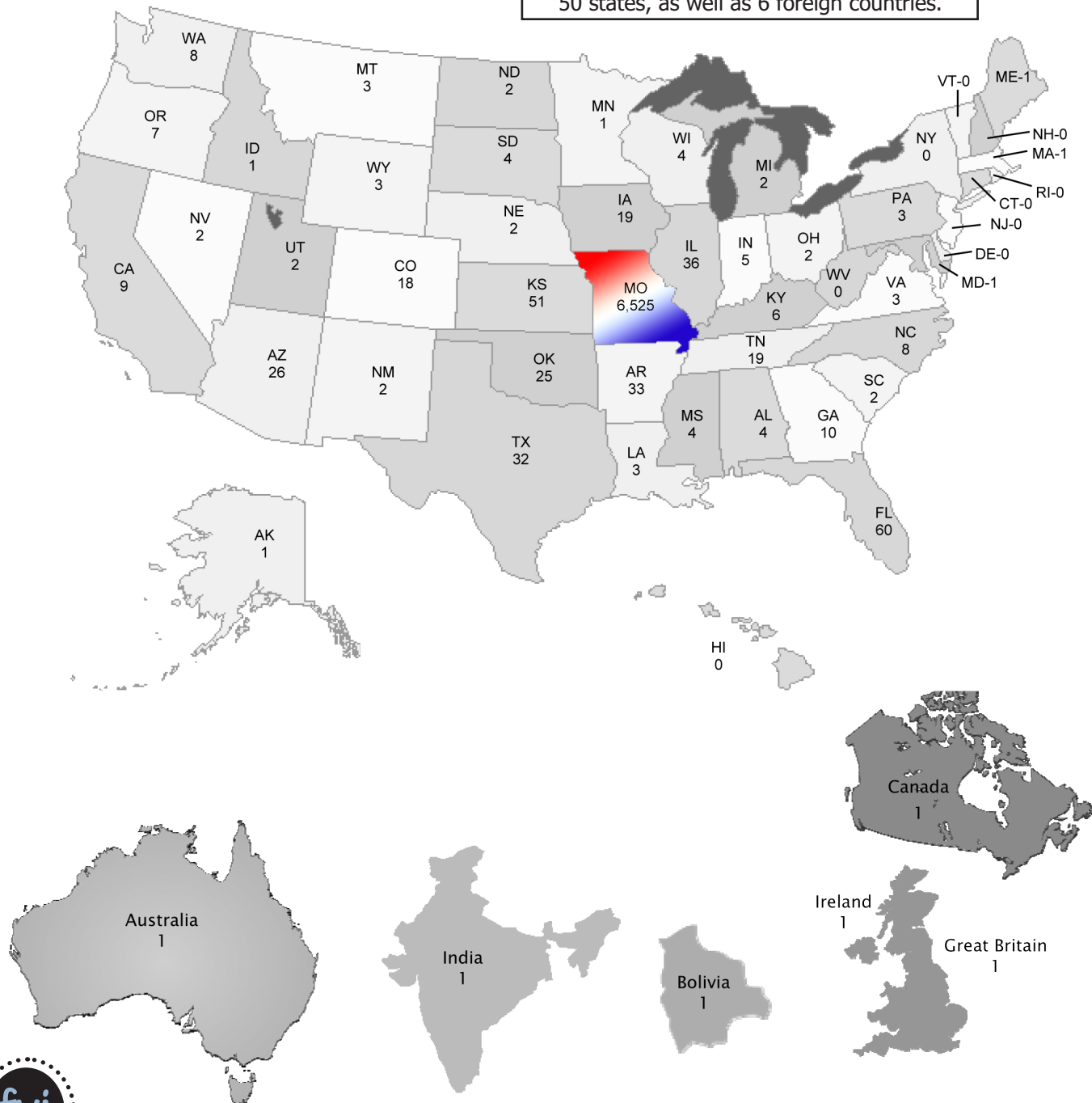


LOCATION OF MPERS' RETIREES



MPERS at a Glance

Retirees and beneficiaries reside in 41 of the 50 states, as well as 6 foreign countries.



MoDOT & Patrol Employees' Retirement System

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